



CITY COUNCIL AGENDA REPORT

MEETING DATE: JUNE 2, 2015

ITEM NUMBER: PH-3

SUBJECT: PROPOSED 2015 UPDATE TO THE PARK IN-LIEU IMPACT FEES (PARK FEES)

DATE: JUNE 2, 2015

PRESENTATION BY: DANIEL INLOES, AICP, ASSOCIATE PLANNER

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RECOMMENDATION:

Identify a methodology for park fee calculations and adopt updated park fees, by adoption of resolution.

| Development Type | Existing Fees | Alternative 1: Park Expenditure Trends: Based on 10-year Historic Trends in Park Expenditures | Alternative 2: Costa Mesa Housing Trends: Based on 10-year Historic Trends in Housing Development | Alternative 3: Reduction of Park Fees |
|--|---------------|--|---|--|
| Single-Family Residence | \$13,572 | \$11,285 | \$18,006 | State Law allows Council to adopt reduced park fees. |
| Condominiums - <i>Multi-Family Residence, Owner</i> | \$13,829 | \$8,777 | \$14,005 | |
| Apartments less than 50 units - <i>Multi-Family Residence, Renter</i> | No Fee | \$10,598 | \$14,005 | |
| Apartments 50 units or more - <i>Multi-Family Residence, Renter</i> | No Fee | \$10,598 | \$5,057 | |

BACKGROUND:

Project Description

The proposal is an update to the City of Costa Mesa’s park in-lieu impact fee, (“park fee”) based on consultation with David Taussig & Associates and Stanley R. Hoffman Associates. California Government Code Section 66477 authorizes the legislative body of the City to allow the payment of park fees in-lieu of the dedication of land for park and recreation purposes for specified residential projects. These new fees will ensure a fair fee assessment per development type while also reflecting the current cost of parkland acquisition and construction. These new fees will ensure compliance with State law and continue to provide funds used to cover the costs of land acquisition and parkland upgrades which support accessible public park space as population grows.

Adoption of updated park fee would replace the current park fee. The proposed park fee varies based on the type of residential development, including new categories for apartments:

- Single Family Residences
- Multi-family Residences (Owner)
- Apartments 50 units or less
- Apartments 50 units or more

Quimby Act of 1975

The municipal responsibility to set aside parkland and open space for its residence is additionally burdened by future development, and therefore Cities have been authorized since the passage of the 1975 Quimby Act to pass ordinances that require developers to set aside land, donate conservation easements, or pay fees for park acquisition or improvements. While the revenues generated cannot be used for operation and maintenance of park facilities, they may be used to cover the costs of land acquisition and parkland construction for upgrades related to the new parkland demand.

Current Park Fees

The current park fees were adopted in May of 2005 and only apply to residential projects requiring a subdivision. These fees currently do not apply to apartment projects which are approved without a subdivision map.

The City Council approved the park fees for new residential subdivisions at \$13,572 for single family homes per unit and \$13,829 for multi-family homes per unit. The current park fee only applies to new residential projects as a condition of approval for tentative map or parcel maps. This means that common-interest condominiums, single-family detached and townhome attached subdivisions were included, but not new apartment developments which do not require a subdivision.

| Existing 2015 Park Fees | |
|----------------------------------|----------|
| Single Family Residence per Unit | \$13,572 |
| Multi-Family Residence per Unit | \$13,829 |

While this process is fair to the developments that conduct subdivisions by charging them fees calculated as a per-unit cost of park development, this methodology does not capture all types of new residential development within the City. Since these developments also create parkland demand from the new residents, it would be appropriate to apply a park fee.

Planning Commission provided feedback on Alternative #1. Subsequent to the Planning Commission meeting, staff further developed Alternative #2 to address some issues that were raised at the meeting.

Methodology in Compliance with Municipal Code and State Law

Compared to the previous methodology used to calculate park fees, the proposed Park Fee Update has some distinct differences. However, it is important to note that the method being used for this update still correlates with state law AB 1600, the General Plan and the Municipal

Code requirements and the park fees structure within Article 5 of Chapter XI of Title 13 of the City’s Municipal Code.

ANALYSIS:

Objectives of Updated Park Fee Program

Following are the objectives of the park fees update:

- To establish apartment categories. The park fees would apply to all major forms of residential development within the City including apartments.
- To update the persons per household factor based on current demographic information.
- To update the per–unit-cost per development type.
- To update the parkland acquisition cost and construction cost based on historic park funding trends, development trends within the City, and future park acquisition goals.

Types of Residential Developments Subject to Park Fee

The updated fee program is intended to account for all types of residential development that have an impact on parkland demand within the City. The appropriate mitigation for a parkland impact is payment of in-lieu parkland fees to the City. The new program proposes to attach not only parkland fees as conditions of approval for subdivisions but conditions of approval to any proposed residential development planning application as additional development fees, including apartment projects. This modification will increase the scope of projects included within the list of potential development projects charged the fees.

Residential Development Subject to Park Fees

| Residential Projects subject To Park Impact Fees | Residential Projects Exempt from park Impact Fees |
|--|--|
| <ul style="list-style-type: none"> • New common-interest condominium • New single-family “detached” subdivisions • New townhouse “attached” subdivisions • New condominiums in mixed-use developments • New condo conversions increasing units • New apartments* | <ul style="list-style-type: none"> • Conversion of apartments to condominiums without changing the unit count. • Granny units and accessory apartments • Single-family home remodels or additions • Multi-family remodels or additions |

**Note: A new category for Apartments is being proposed in the Updated Park Impact Fee Program.*

Eligible Expenditures for the Park Fee

The fees will be used only for the purpose of developing new or rehabilitating existing neighborhood or community parks or other locations with higher park need that meet the State Law requirements. Park fees collected will be committed to parkland developments that are in accordance with a parkland development schedule and the Park Master Plan when it is adopted. Small residential developments with an addition of five or less may not be subject to this fee. The value of land dedicated or park improvements conducted by the developer shall be deducted from the cost of the overall fee.

New Methodology to be Adopted

State law requires that new parkland impact fees be adopted and that the fee schedule be set pursuant to Council resolution. The general methodology for calculating park fees is described in the Quimby Act, but AB 1600 also allows Cities to adopt their own methodology by ordinance.

Within Article 5 of Chapter XI of Title 13 of the City’s Municipal Code the procedures for obtaining park land dedications or assessing and collecting park fees are established. Because this section strictly applies to new residential subdivisions and not apartments, an ordinance is required to be adopted to allow application of park fees to rental projects. Therefore, regardless if the residential project is owner- or renter-occupied, the City will acquire or improve new park land to fulfill the park and recreational needs of the new residents, through land dedications or land acquisition or improvement of park land through the park fees.

PROPOSED ALTERNATIVES FOR PARK FEES

The following summary table provides alternatives for Council to consider in the adoption of new park fees:

| Development Type | Existing Fees | Alternative 1: Park Expenditure Trends: Based on 10-year Historic Trends in Park Expenditures | Alternative 2: Costa Mesa Housing Trends: Based on 10-year Historic Trends in Housing Development | Alternative 3: Reduction of Park Fees |
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| Single-Family Residence | \$13,572 | \$11,285 | \$18,006 | State Law allows Council to adopt reduced park fees. |
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BACKGROUND:

CALCULATION OF PARK FEES

ALTERNATIVE #1: Park Fees Based on Historic Park Fee Expenditures

David Taussig & Associates and Stanley Hoffman were contracted by the City to assist in the park fee update process. In consult with these subject matter experts, staff considered several factors when calculating parkland impact fees. The following section provides a brief overview of how these variables were identified and how the proposed park fee is calculated.

Alternative #1 – Park Fee Methodology Based on Park Fee Expenditure Trends Over the past 10 years

| | | | | | | |
|--|------|---------------------|------|------------------|----------------|----------------------|
| Cost per Acre = $390,000 + .2238(2,500,000) = 949,500$ | | | | | | |
| Single-Family Residential | | | | | | |
| $\frac{949500}{1}$ | cost | $\frac{4.26}{1000}$ | acre | $\frac{2.79}{1}$ | people unit | \$11,285.19 per unit |
| Multi-Family Owner Residential | | | | | | |
| $\frac{949500}{1}$ | cost | $\frac{4.26}{1000}$ | acre | $\frac{2.17}{1}$ | people unit | \$8,777.37 per unit |
| Apartments | | | | | | |
| $\frac{949500}{1}$ | cost | $\frac{4.26}{1000}$ | acre | $\frac{2.62}{1}$ | people unit | \$10,597.56 per unit |

Methodology for Per Unit Cost

- **Park land-to-population ratio established by 2000 General Plan.** General Plan Policy OSR-1A. 1 establishes the park land-to-population ratio of 4.26 acres per 1,000 people. Any adjustment to this rate requires a General Plan amendment.
- **Population density standard based on the US Census.** Since the last update, demographic trends resulted in changes in the average household size of the various types of residential units within the City. According to the data gathered by Stanley Hoffman & Associates from the 2013 ACS 5-year estimates from the US Census, there are; 2.79 people per unit for single family houses, 2.17 people per unit for owner-occupied multi-family dwelling units, and 2.62 people per unit for renter-occupied multi-family dwelling units.

People Per Household by Dwelling Type

| Type of Dwelling | Number of Units | Number of People | People Per Household |
|---------------------|-----------------|------------------|----------------------|
| Single Family | 19,861 | 55,491 | 2.79 |
| Multi-Family Owner | 1,138 | 2,469 | 2.17 |
| Multi-Family Renter | 18,349 | 48,125 | 2.62 |

The development incorporated within the Single Family dwelling type includes all residential developments of detached single family homes and attached single family townhomes. The Multi-Family Owner dwelling type includes all residential developments which are multi-family developments created for the purpose to sell each dwelling independently such as; condominiums, duplexes, triplexes, quadplexes, and 5 or more multi-family developments. The Multi-Family Renter dwelling type includes all residential developments which are apartments.

- **Park land acquisition & construction costs based on 2014 study by David Taussig & Associates.** Pursuant to the Quimby Act and the Municipal Code, an appraisal determined the fair market value of park land acquisition and construction. David Taussig & Associates conducted a study of over 8 previous developments within the local area to ascertain the current cost of acquisition and construction of parkland. The cost to acquire an acre of land within the City of Costa Mesa is estimated at \$2,500,000.00 per acre. Whereas the cost of construction or upgrades on existing park space is estimated at \$390,000.00. The total cost of acquiring and constructing park space would be \$2,890,000.00 per acre.

**Park Fee Expenditures in the Past 10 Years
Years 2005 – 2015**

| Description | Date | Adjusted For Inflation (2014 Dollars) | Total Acres | Construction | Land Acquisition |
|-----------------------------------|------|---|----------------|-----------------|---------------------|
| Fairview, stairs and signage | 2010 | \$488,550 | 2.00 | \$488,549.73 | |
| Fairview, constructed wetlands | 2013 | \$5,589,220 | 45.00 | \$5,589,220.33 | |
| Joann Street Bicycle Trail | 2011 | \$1,262,934 | 2.00 | \$1,262,934.40 | |
| Wilson Park, picnic shelter | 2014 | \$45,000 | 0.05 | \$45,000.00 | |
| Del Mesa Park, new picnic shelter | 2014 | \$45,000 | 0.05 | \$45,000.00 | |
| Brentwood Park | 2011 | \$3,262,581 | 1.20 | | \$3,262,580.52 |
| Brentwood Park Upgrades | 2011 | \$315,734 | 1.20 | \$315,733.60 | |
| Volcom Skate Park Dev | 2006 | \$1,761,429 | 1.25 | \$1,761,428.57 | |
| Angels Playground | 2008 | \$1,869,232 | 2.00 | \$1,869,231.73 | |
| Lions Park/Davis Field Baseball | 2011 | \$526,223 | 2.50 | \$526,222.66 | |
| Bark Park | 2008 | \$208,914 | 2.00 | \$208,914.13 | |
| Shalimar Park, new playground | 2014 | \$120,000 | 0.16 | \$120,000.00 | |
| Total | | \$15,494,816 | 59.41 | \$12,232,235.15 | \$3,262,580.52 |

The City has used a majority of its budget on park upgrades as opposed to acquisition. This is due to the following:

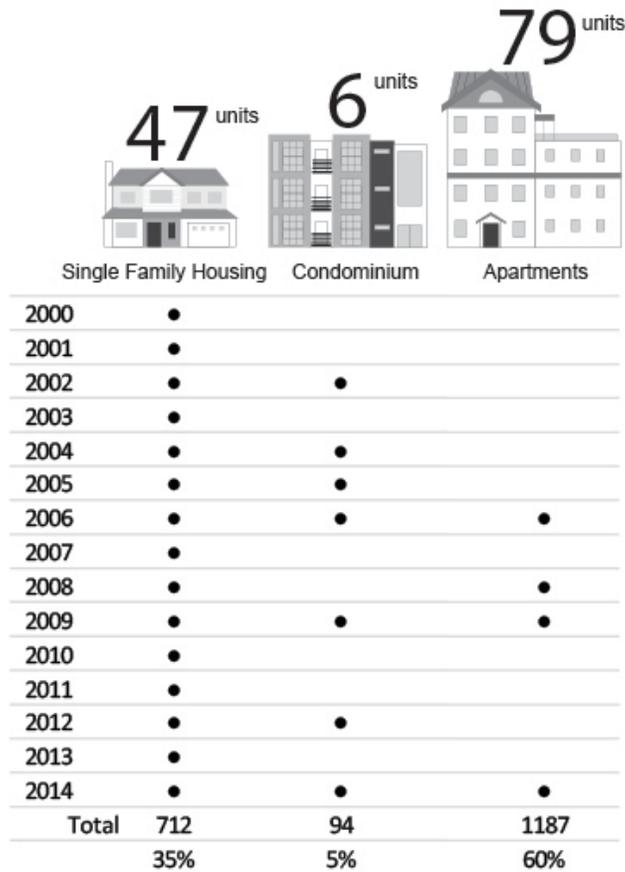
- There is very little open space available;
- The market rate for developed lots is high;
- Most projects are infill or redevelopment which means upgrades to existing parks might better serve the public.

The City's 12 projects funded by park fee funded in the last ten years are listed in the table above. Total expenditures within those ten years were \$15,494,816.00. If the City strictly acquired and upgraded land equally within those ten years than 5.36 acres of land could have been acquired and developed. However due to the lack of land and priority to upgrading existing parks only 1.2 acres of land was acquired. This represents 22.38% of the 5.36 possible acres the City could have acquired.

Since these issues are still salient and will continue to influence park fee fund expenditures in the future expecting residential developers to cover an equal proportion of land acquisition to construction is impractical and not in suite with expectations which it must be as mandated by the Quimby Act. Therefore, having a cost per acre which includes the full cost of construction and only 22.38% of land acquisition is the most justifiable approach. This comes out to \$949,500.00 per acre.

Average Units Developed Per Year

Based on Actual Units Developed over the last 15 years.



Source: CDR and DOF data from 2000 to 2015.

ALTERNATIVE #2:

Park Fee Methodology based on Historic Costa Mesa Housing Trends

Previous park expenditures were hampered by only receiving funds from 40% of the overall units developed in the last 15 years and therefore limited the potential projects that could be developed by this fund. This is shown in the infographic above. This graphic also shows that if apartments are paying park fees in the future the potential fund overall will grow and perhaps will be sufficient for more opportunities for acquisition in the future. Since we do have a goal of 4.26 acres of land per 1,000 people and there are already some potential locations being study for future land acquisition an alternative proposed park fee is provided. While this is still a weighted fee since charging the full cost of acquisition would result in park fees above 30,000 dollars and would make development too costly in the City. Evidence of this being a fee that high would be the highest fee by far in Orange County. The City supports the growth of further residential development to provide to a variety of dwelling units to help meet the current housing demand. This alternative proposes increasing the weighting of the cost of acquisition to 45% for single family residences and multi-family projects. This provides further funding for park upgrades and acquisition but does not raise the fee much higher than the existing fees.

As for apartments, the alternative created takes into consideration that Park Fees have never been charged against apartments and that stimulating specific types of apartment

development is beneficial to the City and the future tenants. Currently the City of Costa Mesa has multiple luxury apartment developments at various stages of the planning process. This is a far contrast to the previous 15 years which only witnessed 3 apartment developments in total. Supporting these types of developments and recognizing that they provide a long list of common amenities on site was incorporated into this calculation. Some of these projects are listed below.

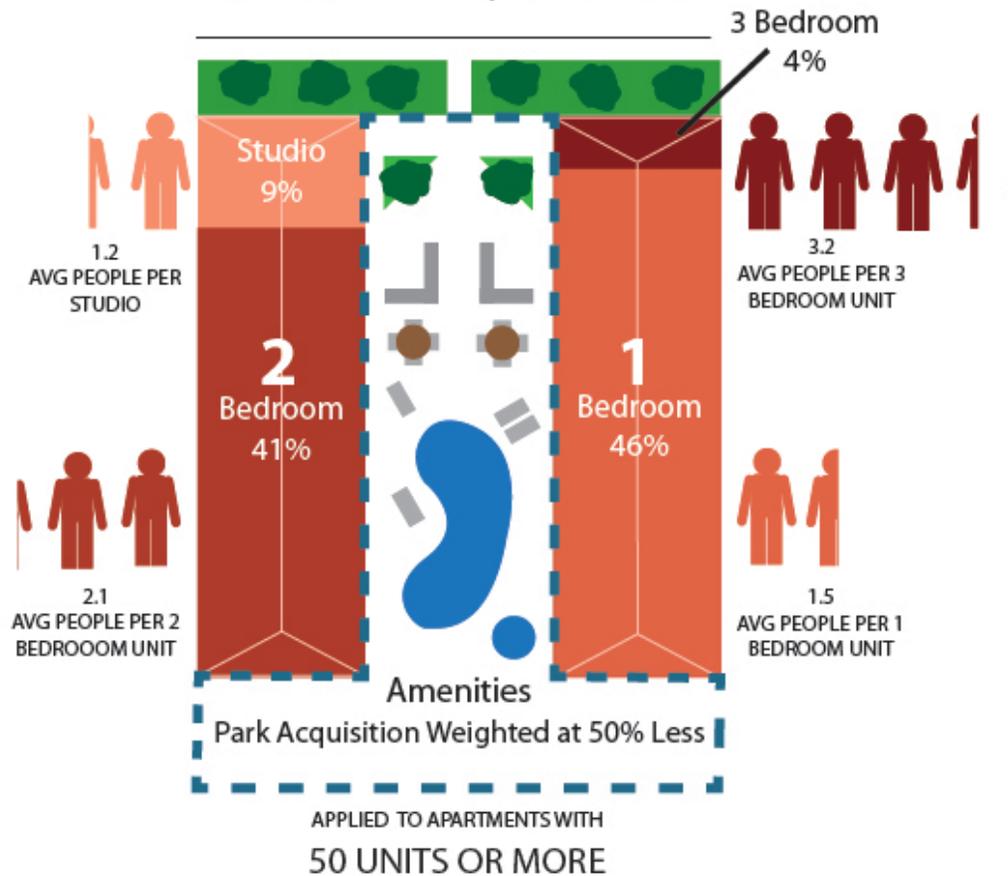
Apartment Projects

| Name | Address | Number of Units |
|---------------------------|-----------------------------|-----------------|
| Blue Sol (Occupied) | 421 Bernard Street | 113 |
| Symphony Apartments | 585 and 595 Anton Boulevard | 393 |
| Wyndham | 3350 Avenue of the Arts | 283 |
| East Baker Street | 125 Baker Street | 240 |
| Anton Midrise Residential | 580 Anton Boulevard | 250 |
| Azulon (Occupied) | 1500 Mesa Verde Drive | 230 |

To further ensure that this park fee addresses the types of developments the City is interested in supporting the calculated fee will only be applied to apartment projects building 50 units or more. Any project developing less than 50 units will be charged the multi-family fee (or Condominium fee). The Zoning Code already recognizes 50 units as a threshold for large developments (Sec 13-87 (5)) and 50 units allows for a development of sufficient size to supply the amenities incorporated into the estimate of this recommended Park Fee.

The table below shows the data and conditions gathered to develop the alternative apartment park fee. In place of a person per household average each bedroom type apartment unit is assessed its own average person per unit type and each of those averages are weighted by the percent share those types of units have in an average apartment complex within the City. To account for the common space amenities these types of developments have the alternative reduces the weighting by half from 22.38% to 11.19%. The resulting apartment park fee is \$5,056.61.

Data Used to Calculate the \$5,056.61 Park Fee for Apartments



Source: Percent Share calculated from data collected on 60 apartment complexes with 50 units or more within the City of Costa Mesa: Data from CoStar. Average people per unit type gathered from case study of recent apartment development in the City with less than 1 percent vacancy and more than 100 units: Blue Sol.

This proposed park fee would meet the proportionately requirement from Quimby, support our General Plan goals, and better represent the current goals for future park acquisition and housing growth.

COMPARISON OF PARK FEES IN OTHER OC CITIES

The following table indicates park impact fees of other Orange County cities. Because cities vary in their approach to calculating park impact fees, and demographic and housing characteristics also differ from city to city, the following table is provided for reference purposes only and is not intended to be a direct comparison.

| City | Park Fee (Per Unit) |
|-----------------------------|---|
| City of Laguna Beach | \$4,580 |
| City of Santa Ana | Varies; up to \$4,823 |
| City of Seal Beach | \$5,000 to \$10,000 |
| City of Anaheim | \$5,388 to \$6,936 |
| City of Garden Grove | \$5,500 |
| City of Tustin | \$5,931 to \$6,386 |
| City of San Clemente | \$6,823 |
| City of Newport Beach | Varies; \$6,894 to \$26,125 |
| City of Brea | \$6,945 |
| City of Fountain Valley | \$7,421 |
| City of Laguna Hills | \$7,700 |
| City of Orange | \$8,894 |
| City of Seal Beach | \$10,000 |
| City of Huntington Beach | No Subdivision: Detached \$11,540 Attached \$8,576 Subdivision: Detached \$17,857 Attached \$13,385 |
| City of San Juan Capistrano | \$11,600 |
| City of Irvine | Fee varies based on acreage value of land to be dedicated. May be as low as \$1,150 per acre of land dedication. |
| City of Costa Mesa | \$13,572 to \$13,879 |

Automatic Adjustment of Park Fee based on Consumer Price Index Every Year

The current park fees have not been adjusted for ten years. The consultants propose that the park fee be increased on July 1st of each year, starting July 1, 2016, based on the change to the Los Angeles – Riverside-Orange County Consumer Price Index in comparison to the previous calendar year.

New Park Fees to be applied for Pending Entitlement Projects

State law requires that the new fees shall not go into effect until after 60 days of Council adoption of the resolution. Park fees may be applied to all pending projects, including rental projects. Staff recommends that the new park impact fees shall apply to any live/work or residential development project which meets any of the following criteria on or before the effective date of this resolution:

- (1) any pending and future live/work or residential development project which has not received final and effective entitlement approvals; and/or
- (2) any previously approved live/work or residential development project which is currently in plancheck where building permit(s) are still pending and have not been issued; and/or

(3) any previously-approved live/work or residential development project which has expired on or before the effective date of this resolution.

Unless the park fees are reduced, the new park fees do not apply to projects under previously-approved and valid vesting tentative tract maps.

POLICY IMPLICATIONS OF UPDATED PARK FEE

The most significant change is that the updated park fee program would create new fees for apartment projects. This is justified to address the nexus between a project's impacts and the exactions necessary to provide its future residents and current residents with the same level of parkland accessibility.

The decrease in per unit cost to single family and multi-family owner residential developments can be justified based on the current and projected parkland upgrades and acquisitions in the future do to the City's remaining open space, cost of land, and accessibility to park land.

Adding New Park Fee for Apartments

- *Failure to add fees for apartments may result in deficient parkland for future park demand.* All newly developed apartment complexes are adding a significant amount of population to the City. This increase in potential park use without increasing the funds to improve or add to the City's park land stock will diminish park accessibility for all residents. Impacts to the rents attached to these new apartments must also be viewed in light of other budget considerations. However, if the goal of Council is to have new development "pay its own way", then the park fees should be expanded to account for the cost of acquiring new park land to support the new residents' of apartments and their demand for park and recreation facilities as well.
- *Additional Fee per unit to Apartments may affect new apartment construction.* The new park fee will increase the cost to apartment developers and test the elasticity of apartment rents within the City. Since the cost is per unit this may make small apartment's complex economically infeasible and make new apartment developments proposed within the City become exclusively large luxury complex developments. This is currently the existing trend and these types of developments may receive through this update an even greater incentive to provide open space and public amenities to their tenants to decrease park fees.

Weighting Acquisition Costs for Fees

- *Decreased fees may positively affect new owner-centric housing construction.* This assists the community's desire and Council's goal to increase the supply of ownership housing opportunities and to encourage mixed-use and/or live/work units. All proposed updates to the park fees are extending a future decrease in fees since neither is setting the fees at the true cost of acquisition. This decreases the burden on all types of residential development projects that will be built in the city.

1. At 22.39%

- The significant decrease in multi-family owner units may increase mixed-use and condominium development. The over 5,000 dollar decrease in condominiums may facilitate increase development of this type and thereby provide starter locations for new families within the City or at least change the current trend of development from renter-centric development to owner-centric multi-family development.
- Decrease in fees may mean decrease in home price. The issue of housing affordability is very salient within the community. Decreased costs, to some degree, may be savings passed to the home buyer.
- Large initial park fee for apartment developments may mean a decrease in projects. Since park fees on apartment units is less common a large park fee on these types of development may mean a decrease in future potential apartment projects of all types or an increase passed on to the renter.

2. At 45% for Single Family and Multi-Family

- The minimal increase but smaller increase to condominium development may incentivize multi-family development within the City. The minimal increase of only a couple hundred dollars in condominiums may facilitate increase development of this type and thereby provide starter locations for new families within the City or at least assist in changing the current trend of development from renter-centric development to owner-centric multi-family development. Providing multi-family housing will also considerably improve jobs to housing ratio that is disproportionate throughout the County.
- The increase in park fees for all development types would increase the opportunity to acquire land to further improve the quality of life and accessibility of parkland to residence. Setting the park fees so that with 2 average years of development the City may accrue more than enough money to acquire an acre of land allows for further incentive to retain and save park funds for acquisition since smaller park fee collections may result in a timeframe too long for park upgrades to wait and result in park fees being continually expended on necessary or salient upgrades.

3. At 11.19% for Apartments 50 units or above

- The decrease in apartment park fees for units over 50 will encourage luxury apartment developments and will continue to support subdivisions of smaller lots and projects. This park fee would continue to ensure that the recent trend of luxury apartments will not be hampered too heavily by the addition of an apartment park fee. Setting this park fee for larger apartment developments will ensure that smaller developments will have no incentive to development apartments rather than condominiums or single family homes.

LEGAL REVIEW:

The City Attorney's office has approved the attached resolution as to form.

ALTERNATIVES:

The City Council may select one of the following actions with the Park Fees;

- *Existing Fees:* Keep current park fees; however, Council may wish to add new park fees for apartments as identified in Alt #1 or Alt #2.
- *Alternative #1:* Adopt this alternative based on trends in park fee expenditures.
- *Alternative #2:* Adopt this alternative based on Costa Mesa housing trends.
- *Alternative #3:* Council may reduce (but not increase) any of the park fees.
- *Continue hearing:* Provide direction to staff to research and identify other alternatives.

The resolution would be modified to include the selected alternative and park fees.

CONCLUSION:

The City's park fees have not been updated for over ten years. Council may select a methodology for calculating park fees and adopt new park fees. Important note: Staff recommends that the park fees be updated automatically every year based on the consumer price index and that the new park fees be applied to pending/future development projects that have not received zoning entitlements to date.

DANIEL INLOES
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GARY ARMSTRONG, AICP
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Attachments: 1. [Draft Council Resolution](#)
2. [Draft Park Fees Report from David Taussig](#)
3. [Demographic Report from Stanley Hoffman](#)

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